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MEMO TO: City Council

FROM: Lenda Crawford, Finance Director

DATE: April 5, 2005

SUBJECT: **STAFF REPORT: Financial Status Report for the 2003-2004 Biennium**

This report summarizes the financial performance of the major City funds, including the General, Capital and Enterprise funds for the 2003 – 2004 biennium. Detailed tables supporting the analysis are included as appendices to this report.

Staff will be present at the April 5th Council meeting to answer any questions on the report. If you have questions prior to that time, please contact either me at 425.556.2160 or Martin Chaw at 425.556.2165.

EXECUTIVE SUMMARY

General Fund

During the 2003-2004 biennium, economic conditions remained weak. While modest improvements were seen at the national level, the Puget Sound region experienced one of the highest unemployment rates at 7.2% compared to a national rate of 6.2%. Job losses were greater in this region due to large layoffs at Boeing and the collapse of the dot.com industry. Microsoft, Redmond's largest employer, continued to hire during this period albeit at a slower rate than prior years. By the end of 2004, the local unemployment rate had begun to decline, however, no substantial improvement had been noted in City revenues.

Revenues today at \$103.0 million are \$3.7 million less than the amount collected during the 2001-02 biennium. Over the last four years, revenue growth has not kept pace with inflation. Revenues have grown by 1.9% while inflation has averaged 2.2%. This underscores the challenges the City has faced and will continue to experience in the future if the growth in revenues fails to keep pace with inflation and the rising cost of City services.

Economically sensitive revenue sources such as sales taxes and development revenues were particularly hard hit by the economic slow down and continue to remain below 2000 levels. A review of Redmond's sales tax collections shows continued weakness in almost all areas of the economy with the exception of retail trade. This sector is up due to new retailers such as Bon/Macy's, Staples, Home Depot and Fred Meyer attracting more consumers to the City. However, improvement in the retail sector is being overshadowed by a steep decline in the construction industry. In terms of the persistent weakness of this revenue source, Redmond is not alone as sales tax revenues for King County, Seattle, Bellevue, Bothell and Tukwila are all significantly below 2000 levels. Only Issaquah and Renton have seen a significant increase in their sales tax collections since 2000 primarily due to new large retailers such as Fry's Electronics and Sam's Club locating in Renton and the annexation of Costco into Issaquah.

Annual Sales Tax Collections for Selected Jurisdictions (\$M)

Jurisdiction	2004	2000	2000 vs 2004
			% Change
Issaquah	9.3	8.0	15.6%
Renton	16.8	15.7	7.1%
Kirkland	12.9	12.4	3.8%
Uninc. King County	72.6	73.7	-1.4%
Seattle	117.7	123.6	-4.8%
Redmond	16.5	17.5	-5.7%
Bellevue	37.9	42.1	-10.0%
Bothell	8.1	9.0	-10.2%
Tukwila	16.2	18.5	-12.5%

Source: Wa. State Department of Revenue
Redmond data for 2004 excludes one time audit adjustment

The decline in development activity has not only impacted sales tax revenues but fees collected from developers are also down considerably. In terms of square footage, construction activity is about one-third of the levels seen during the peak in the 1999-2000 biennium. Commercial and tenant improvements which account for the majority of development revenue have declined by 75% and 56% respectively. Only residential construction has experienced a significant improvement as the demand for housing continues to remain high in this historically low interest rate environment.

Overall, General Fund revenues came in \$3.6 million below budget. Despite this fact, the City was able to live within its means. The series of cost containment measures, which the Administration instituted early in the biennium, were extremely successful in controlling costs and resulted in expenditure savings of \$5.4 million. These measures, which included filling vacancies only when necessary, instituting dependent medical premium cost sharing for most City employees, scrutinizing the use of overtime, supplies and other daily operating expenses and foregoing investments in capital equipment, remained in effect through the end of the biennium and will continue to be used as appropriate to control costs in the future.

Utilities

During the 2003-04 biennium, the financial position of the Water/Wastewater and Urban Planned Development Utilities continued to improve, while the Stormwater Management Utility continued to drawdown cash accumulated in the early years of its five year rate plan to pay for ongoing expenses.

Water/Wastewater (W/WW) Utility

The W/WW Utility saw an improvement in its financial condition as water and sewer rates were increased in both 2003 and 2004 and irrigation water sales, water meter installations, and investment interest came in higher than expected. Overall, revenues were 4.4% above budget and exceeded expenditures by \$1.6 million. As a result, the budgeted fund balance grew from \$1.7 million at the beginning of the biennium to \$3.3 million by the end of the biennium. From a financial statement perspective, the Utility also experienced an increase in its operating position. Operating income rose to \$1.5 million as of December 31, 2004 compared to \$164,000 at the end of 2002.

Expenditures for the Utility's capital investment program totaled \$10.9 million as compared to the budget of \$22.4 million and expenditures of \$6.3 million in the previous biennium. The increased level of spending over the previous biennium reflect increased design and construction activity on several major projects including reconstruction design of Well #5, and improvements to Wells #1-3, Phase 1 of the SE Redmond Transmission Main. In addition, the Utility CIP transferred \$2.3 million to the Utility Operating Fund in 2003 for early retirement of its outstanding revenue bonds, saving approximately \$416,000 in interest cost.

Stormwater Management (SWM) Utility

The SWM Utility continued to draw upon its cash to finance operations and capital consistent with the design and intent of the five-year rate plan which culminated at the end of 2004. The Utility's budgeted fund balance declined from \$1.9 million at the start of the biennium to \$1.1 million by the end of the biennium. The Utility's operating income declined from \$2.9 million at the end of 2002 to \$1.9 million at the end of 2004. Despite these significant declines, the Utility's cash balance remained above its minimum operating reserve requirement of \$843,000. It is important to note that a rate adjustment was approved for this Utility effective January 1, 2005 increasing the base rate from \$8.50 to \$11.50 and eliminating the \$3.00 CIP surcharge. This action will provide rate revenues sufficient to cover operating costs and allow partial compliance with stormwater environmental regulations. Further review of stormwater rates is expected in 2005.

No significant change in the level of activity for the Stormwater CIP was noted as expenditures during 2003-04 totaled \$5.9 million as compared to \$4.3 million in the previous biennium. Significant projects in 2003-04 included improvements to Lower Peters Creek and the Sammamish River, storm drain improvements at 140th Street and on NE 80th street, culvert replacement at 4800 West Lake Sammamish Parkway, and Welcome Park detention pond.

Urban Planned Development (UPD) Utility

The UPD Utility continued to experience rapid growth in 2003-04. The Utility saw its revenue nearly tripled with a corresponding increase in expenses. In 2004, the City funded the depreciation on UPD assets at a higher rate than in years past as more customers were added and deferred revenues from the Depreciation Rate Surcharge were recognized. Also, the Utility's operating position improved from a loss of \$22,000 at the end of 2002 to a positive \$67,000 at the end of 2004.

Expenditure activity for the UPD capital investment program, which totaled \$919,000 or 28.5% of budget, primarily reflected connection fee payments to the Cascade Water Alliance.

Capital Investment Program

General CIP revenues were more than sufficient to support CIP expenditures. Revenues exceeded budget by 4% due to stronger than expected real estate excise tax collections and business license surcharge revenue. The City spent approximately 65% of its capital budget during the biennium. The bulk of these expenditures occurred in the Transportation, Parks and Fire functional areas, each spending at or over 70% of their budgeted allocations. Significant projects completed during the biennium include West Lake Sammamish, 140th Avenue NE Sidewalk Improvements, Perrigo Park Development and Grasslawn Park Improvements and purchase of a new Fire aerial ladder truck.

For a more in-depth analysis of the General Fund, the City's Utilities, the Capital Investment Program and Cash and Investments, please refer to the following pages.

GENERAL FUND

Despite persistent weakness in the economy the City was able to live within its means. The General Fund ended the biennium with a balance of \$1.8 million. It is important to note that most of this money (\$1.1 million) has already been anticipated and factored into the 2005-06 budget. A total of \$420,000 will need to be carried over to 2005 to complete work that was approved in the 2003-04 budget but not completed by the end of the biennium. It is recommended that the remaining \$240,000 be set aside in part to replenish the economic contingency pending a significant improvement in the economy. Please note for 2005-06, \$1.6 million of the \$3.3 million contingency was allocated to support City operations.

General Fund Financial Performance 2003-04 Budget vs. Actuals

	2003-04 Budget	2003-04 Actual	Difference	% of Budget
Total Revenues (excluding economic contingency)*	106,671,576	103,045,337	(3,626,239)	-3.4%
Total Expenditures	106,671,576	101,248,199	(5,423,377)	-5.1%
Ending fund balance before adjusting for reappropriations and amount already included in 2005-06 budget	0	1,797,138	1,797,138	
Less amount already included in 2005-06 budget		-1,136,447		
Less appropriations which will be carried forward to 2005-06 budget		<u>-420,360</u>		
Net surplus available for allocation		<u>240,331</u>		

*Note: results exclude \$3.3 million economic contingency

Revenues:

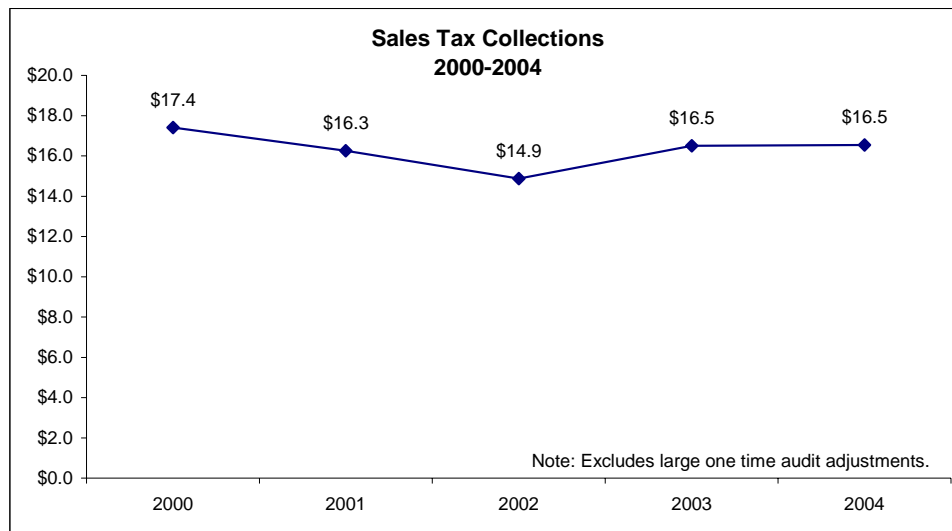
General Fund revenues totaled \$103.0 million during the 2003-04 biennium and were \$3.6 million or 3.4% below budget. Major variances occurred in sales and utility taxes, development fees, and investment interest. On a positive note, business license fees came in higher than expected. Following is more information regarding the performance of major General Fund revenues:

Beginning fund balance. The General Fund started the biennium with a fund balance of \$1.7 million excluding the economic contingency. The \$1.7 million represented money carried over from the previous biennium to fund labor contracts that did not settle by the end of 2002.

It is also important to note that the City began the biennium with a \$3.3 million economic contingency. This contingency was first established at the end of the 1999-2000 biennium as a hedge against an economic downturn. As of the end of 2004, none of this contingency has been spent and is being carried forward to the 2005-06 biennium where \$1.6 million of the contingency will be used to support City operations.

Sales Tax is the General Fund's single largest revenue source accounting for about one-third of the fund's total revenues. Collections totaled \$34.4 million and were \$500,000 or 1.4% below budgeted levels. Included within the sales tax figures is a one-time audit adjustment. If this adjustment was excluded, sales taxes revenue would have been \$33.1 million, or approximately 5.3% below budget.

Sales tax revenues were hit hard by the economic recession. As shown in the graph below, this revenue source declined significantly in 2001 and has remained below 2000 levels since.



Areas of the Redmond economy that suffered, and continue to do so, include construction, wholesale and business services. Tax collections from these three sectors, which account for approximately one-half of the City's sales taxes, declined by 25% to \$6.8 million in 2004 from \$9.1 million in 2000.

**Redmond Sales Tax Collections (\$M) by
Standard Industrial Classification
2004 vs. 2000**

SIC Category	2004 Actual	2000 Actual	% Change
Construction	\$2.4	\$3.4	-29%
Retail	7.2	6.1	18%
Wholesale	2.1	3.0	-30%
Business Services	2.3	2.7	-16%
Other	2.5	2.1	17%
Total	\$16.5	\$17.4	-5%

Utility tax collections totaled \$17.0 million and ended the biennium 8.7% below budget. Collections were lower than expected in electricity, natural gas and telephone utility services.

Although **electric** utility taxes grew by 8.3% over the biennium, they were still 5.9% or \$440,000 below the budget estimate. This is the result of this revenue source being overestimated for the 2003-04 biennium.

Natural gas collections came in at \$1.4 million as compared to the budget of \$2.0 million. Actual collections declined \$300,000 or 18% from the previous biennium due to lower consumption resulting from a warmer than expected winter. The budget assumed this revenue would continue to grow.

Telephone utility taxes were \$1 million below budget. Under-performance in this category was primarily due to cellular phones. While tax revenue from cellular phones more than doubled in the previous biennium from \$1.3 million in 1999-2000 to \$3.0 million in 2001-02, collections declined 7% in 2003-04 to \$2.8 million. This revenue source has stabilized as a result of increased competition in the market place, which has driven down prices. The 2003-04 budget assumed continued growth in cellular phone revenues.

**Utility Tax Revenue Collections
2001-2004**

	1999-00 Actual	2001-02 Actual	2003-04 Budget	2003-04 Actual	Difference	% change
Electricity	6,369,312	6,424,389	7,394,000	6,955,269	(438,731)	-5.9%
Natural Gas	1,216,311	1,731,395	1,998,000	1,416,298	(581,702)	-29.1%
Garbage	1,002,576	1,056,985	921,000	1,015,937	94,937	10.3%
Cable Television	688,751	824,421	904,000	1,148,058	244,058	27.0%
Landline Telephone Services	3,719,188	3,548,848	3,783,000	3,677,610	(105,390)	-2.8%
Cellular Telephone Services	1,338,315	3,044,694	3,664,000	2,818,206	(845,794)	-23.1%
Subtotal - Telephones only	5,057,503	6,593,543	7,447,000	6,495,816	(951,184)	-12.8%
Total - All Utility Taxes	14,334,454	16,630,732	18,664,000	17,031,378	(1,632,622)	-8.7%

Development fees were \$1.2 million or 15% below the budget of \$7.9 million. As shown in the following table, commercial, multifamily and tenant improvements have declined significantly since 1999-2000 and not shown any signs of recovering from these low levels. During 2003-04, revenue collections in these three sectors totaled \$1.3 million and were 22% below budgeted levels. This compares to collections of \$2.0 million during the 2001-02 biennium. Partially offsetting these declines was strong growth in single family construction. Revenue from single family homes at \$1.8 million exceeded the budget by 24%.

**Development Activity (Square Footage)
1999 – 2004**

	1999-2000	2001-2002	2003-2004
Commercial	7,514,000	2,938,300	1,220,000
Tenant Improvement	7,599,118	3,556,000	1,779,000
Multifamily	332,700	1,044,200	647,600
Single Family	893,400	893,000	1,885,000
Total	16,339,218	8,431,500	5,531,600

Intergovernmental revenues were on target at \$17.1 million. This category includes payments from Fire District #34 and the City of Sammamish for fire services, State distributions for motor vehicle fuel taxes and liquor sales, and overhead fees that are paid by other City departments for central services such as finance and human resources.

Transfers from reserves - It is important to note that General Fund results reflect \$1.037 million in **transfers from the general operating and the building permit reserves**. A total of \$537,000 was transferred from the General Fund operating reserve fund consistent with Council policy direction to reduce this reserve from 10% to 8.5% to help pay for general operations. In addition, \$500,000 was transferred in from the building permit reserve to right size this reserve consistent with the City's ongoing inspection liability now that development has slowed significantly.

Investment interest at \$672,000 was significantly below the budget of \$2.4 million. Interest earnings for the General Fund declined considerably as a result of record low interest rates, which affected overall returns for the City's investment portfolio and a decline in the General Fund's cash balance relative to other City funds.

Business licenses and penalties were 37% above the budget of \$1.6 million. Collections were higher than anticipated due to the results of a major audit in 2003 that uncovered under-reporting of employees in prior years.

Other revenues were \$600,000 or 32% above budget primarily due to stronger than anticipated collections in fines/forfeits, fees assessed for facility usage/rentals and other revenues such as street/curb use permits and false alarm fees.

Expenditures: General Fund expenses totaled \$101.2 million and were \$5.4 million or 5.1% below budget. Cost containment measures which the Administration put into effect early in the biennium were extremely successfully in controlling costs thereby ensuring expenses did not exceed available revenues. Most of the savings occurred in salaries and benefits, which represents approximately 68% of total General Fund expenditures. These costs were 4.9% below budget. Other operating costs including supplies, services and equipment were collectively under-budget by 11%.

While, citywide spending remained within budgeted levels, there were two departments that exceeded their budgets: Fire and Legal. If these two departments were excluded, the rate of savings for the remaining nine departments was an unprecedented 6.9%. Historically, on average departmental under-expenditures have ranged between 2% to 4%.

2003-04 Budget vs. Actual Expenditures By Department

DEPARTMENTAL EXPENDITURES	2003-04 Budget	2003-04 Actual	Difference	% (Under)/Over Spent
Fire	\$ 23,705,055	\$ 23,865,193	\$ 160,138	0.7%
Police	20,595,988	20,193,067	(402,921)	-2.0%
Non-Departmental	11,641,243	10,783,467	(857,776)	-7.4%
Public Works	16,141,531	15,015,867	(1,125,664)	-7.0%
Finance and IS	10,163,274	9,475,833	(687,441)	-6.8%
Planning	10,905,727	9,527,774	(1,377,953)	-12.6%
Parks and Recreation	9,092,185	8,197,849	(894,336)	-9.8%
Human Resources	1,740,336	1,525,305	(215,031)	-12.4%
Legal	1,365,084	1,395,973	30,889	2.3%
Executive	1,006,297	1,006,297	0	0.0%
Legislative	314,856	261,574	(53,282)	-16.9%
TOTAL EXPENDITURES	\$ 106,671,576	\$ 101,248,199	\$ (5,423,377)	-5.1%

Fire and Legal are over budget due to the following reasons:

The **Fire Department** exceeded its budget by \$160,000 or .7% primarily due to overtime expenditures and higher than expected dispatching costs from the City of Bellevue. Overtime expenditures in the Fire Department were approximately \$300,000 higher than budget while dispatching costs were \$150,000 over the budget. In response, the Department reduced expenditures in other areas to minimize the impact of these costs on the overall budget. Expenditures for supplies were 6% under budget, services were 11% under budget, and no

expenditures were made for capital equipment during the biennium. These actions lowered overall expenditures by nearly \$300,000 and offset a substantial portion of the higher costs in overtime and dispatching.

The **Legal Department** exceeded its budget by \$31,000 or 2.3% due to higher than anticipated costs associated with labor negotiations. During 2003/2004 the City was in active negotiations with all of its unions which resulted in higher than anticipated expenses in the civil area. Civil legal was \$130,000 over budget. These costs were partially offset by lower than budgeted expenses in prosecution.

ENTERPRISE FUNDS

The City of Redmond operates its own water, wastewater and storm water utilities. Below is a summary of the Utilities' financial results.

Water/Wastewater (WWW) Utility: The Water/Wastewater Utility ended the 2003-04 biennium with revenues, excluding beginning fund balance, exceeding expenses by \$1.6 million. The improvement in the Utility's operating position is primarily due to higher than anticipated irrigation water sales, water meter installations and investment interest.

Overall, revenues were \$1.6 million or 4.4% above budget. Irrigation water sales, which represented the largest component of this overage, were \$1.7 million above the budget of \$2.8 million. The Utility saw this revenue rise 49% in 2003-04 compared to 2001-02 due to higher consumption and water rates. Water meter installations totaled \$288,000 and were up 243% biennium over biennium and were largely driven by a surge in new residential construction. Investment interest totaled \$260,000 as compared to a conservatively budgeted level of \$60,000, but declined from \$450,000 during the 2001-02 biennium due to relatively lower interest rates.

Expenditures at \$39.4 million were largely on target. The higher METRO expenses were more than offset by the higher than anticipated METRO revenues and thus did not have a material impact on the Utility's financial results. The transfer to the Capital Improvement Program was approximately \$300,000 higher than budget due to more assets coming on line than originally anticipated. An important transaction for the Utility in 2003 included the retirement of all of its outstanding bonds which saved approximately \$416,000 in interest cost.

As revenues outpaced expenditures, the Utility's budgeted fund balance improved from \$1.7 million at the start of the biennium to \$3.3 million at the end of December 2004.

From a financial statement perspective, the Water/Wastewater Utility ended 2004 with operating income of \$1.5 million compared to a margin of \$164,000 in 2002. The improvement in the Utility's income level is the result of rate increases in both 2003 and 2004 and two one-time refunds. The Utility received a sewer excise tax refund of approximately \$200,000 and a refund of approximately \$400,000 for purchased water costs as a result of changing over to the Cascade Water Alliance. If these two refunds were excluded from income, the Utility's operating margin would have been approximately \$900,000 vs. \$1.5 million.

Expenditures in the Water/Wastewater Construction Fund totaled \$10.9 million during the biennium, or 48.5% of its \$22.4 million budget. This compares to \$6.3 million for the 2001-2002 biennium. The level of expenditures increased over the previous biennium due to increased design and construction activity for several projects including reconstruction design and modification of the treatment process of Well #5, water quality improvements on Wells #1-3, SE Redmond Transmission Main – Phase 1, and the 2003-2004 miscellaneous water and sewer system improvements as well as transfer of \$2.3 million to the Operating Fund for the retirement of the Utility's outstanding revenue bonds.

Stormwater Management (SWM) Utility: The Stormwater Management Utility ended the biennium with a fund balance of \$1.1 million, or \$800,000 less than the budget of \$1.9 million. The decline in fund balance was the result of the 5-year rate structure which was designed to generate excess cash in early years and under-recover in latter years. 2004 represented the last year of the rate plan.

Expenditures for the Utility totaled \$15.1 million and were 4.1% above budget. Costs were higher in operations due to less staff time being charged to the Utility CIP program and higher than anticipated depreciation on capital assets.

Revenues at \$14.2 million were \$250,000 or 1.7% below the budget. Revenues came in under budget due to a slower than anticipated growth rate in commercial accounts. Rate revenues from commercial accounts were projected to increase 6% in 2003-04, however, actual collections were up only 3%.

From a financial statement perspective, the Utility's operating income declined from \$2.9 million in 2002 to \$1.9 million in 2004 consistent with the design and intent of the five year rate plan. As 2004 represented the final year of the Utility's five year rate plan, a rate study was conducted in 2004 to evaluate the future financial needs of the Utility. As a result of this rate study, effective January 1, 2005, the Utility's base monthly rate will be increased from \$8.50 to \$11.50 and the Utility's CIP surcharge of \$3.00 per month will be discontinued as planned. This action will help shore up the Utility's operating position and allow it to be partially in compliance with stormwater management environmental regulations beginning in 2005. The Council has committed to further study of stormwater rates in 2005.

Expenditures for the Stormwater Management Construction Fund totaled \$5.9 million or 47.3% of the budget of \$12.5 million. This compares to \$4.3 million for 2001-2002. There was no significant change in the level of activity biennium over biennium. CIP surcharge projects constructed during 2003-2004 include the Lower Peters Creek habitat improvements, Sammamish River habitat improvements, the 140th Street storm drain improvements, culvert replacement at 4800 West Lake Sammamish Parkway, Welcome Park detention pond and storm drain improvements on NE 80th Street.

Urban Planned Development (UPD) Utility: The UPD Utility ended the 2003-04 biennium with a fund balance of \$1.1 million. The Utility's cash balance declined by \$200,000 over the biennium as the depreciation reserve was funded at a higher rate than in previous years. An increase in the customer base as well as the recognition of deferred Depreciation Rate Surcharge revenue from developers allowed the Utility to begin to catch up on its depreciation funding obligations.

The UPD continued to experience rapid growth during 2003-04. Revenues nearly tripled from \$2.3 million in 2001-02 to \$6.1 million in 2003-04. At \$6.1 million, revenues were \$370,000 or 5.7% below budget. This was primarily due to lower than expected irrigation water sales and engineering fees. Irrigation water sales declined in 2004 as water use by the Trilogy Golf Course moderated as its greens and fairways became established. Engineering fees were below budget and reflect a slower level of development activity in the business park.

The Utility also saw a corresponding increase in its expenditures as expenses rose from \$2.2 million to \$6.3 million. Expenditures at \$6.3 million were \$1.1 million or 15.5% below budget. While higher expenses were incurred for purchased water and Metro wastewater treatment, these were more than offset by operating expenditures, which were lower than budget as development occurred in the business park at a much slower rate.

From a financial statement perspective, the Utility's operating position improved from a loss of \$22,000 at the end of 2002 to a positive \$67,000 in 2004, the first since the Utility was formed in 2001. The improvement in the Utility's operating position is the result of the rapid growth in the Utility's residential community and the opening of the Trilogy Golf Course. The operating position of the Utility is expected to continue to improve in the future with the opening of a new grocery store and additional retailers in its business park as well as continued build-out of the residential community.

Expenditures for the UPD CIP program totaled \$919,000 for 2003-2004 or 28.5% of budgeted expenditures and primarily reflect payments to the Cascade Water Alliance for connection fees paid in 2003. Starting in 2004, these fees are recorded in the Utility's Operating Fund.

CAPITAL INVESTMENT PROGRAM

General CIP revenues at \$110.3 million were more than sufficient to support CIP expenditures of \$61.1 million. Revenues were 4% higher than expected primarily due to increased collections of real estate excise tax, business license surcharge revenues and private contributions. On the expenditure side, of the total \$61.1 million spent, Transportation accounted for 68% or \$41.7 million, Parks spent \$13.6 million and Fire expended \$1.4 million. Significant projects included West Lake Sammamish, 140th Avenue NE Sidewalk Improvements, Perrigo Park Development and Grasslawn Park Improvements and the purchase of a new Fire aerial ladder truck.

Revenues: As stated above, CIP revenues were \$110.3 million or approximately 4 % over budgeted levels. Of this amount \$47 million, or 43%, represents the funds carried over from the previous biennium. Excluding beginning resources, CIP revenues totaled \$63.4 million and were 9% above budgeted levels. This strong performance was due in part to collections in real estate excise tax, which exceeded budget as a result of strong residential housing sales; business license surcharge revenues which were up due to an increase in employees working in the City and the completion of a major audit in 2003; and a significant increase in private contributions, the majority of which were related to the Union Hill widening project. Offsetting these gains were impact fees as a result of weak commercial development and the elimination of the motor vehicle registration fees due to Initiative 776. Below is a more detailed explanation of the CIP's financial performance by major revenue source.

Real Estate Excise Tax (REET) ended the biennium with revenues totaling \$6.7 million or 59% above the 2003-2004 budget. As reported at mid-biennium, this revenue was expected to be over budget due to continued strength in residential housing sales.

Business License Surcharge revenues at \$7.5 million exceeded budget by 13%. The increased number of employees in Redmond as well as the completion of a major audit in 2003 has contributed to the positive performance of this revenue source. The business license surcharge is distributed between Transportation CIP projects and Transportation Demand Management (TDM) projects based on recommendations by the Business Tax/Transportation Improvements Advisory Committee and approval by the Council. Of the total budgeted, approximately 66% was transferred to the Transportation CIP.

Impact Fees ran below budget for the entire biennium, finally ending the biennium approximately 36% or \$1.9 million under collected. Continued weakness in new commercial development resulted in lower than expected impact fees in the transportation area. Parks and Fire impact fees, which are more closely tied to residential development, remained only slightly below target. Impact fee collections can vary widely as the City receives the revenue once new construction is complete.

Private Contributions totaled \$4.5 million, well above the budget of \$400,000. Seventy percent of these collections were due to money received from a private developer for the Union Hill Widening project. Other projects with significant private contributions included the 140th Street Sidewalk Improvements and the NE 116th Corridor.

Vehicle Registration Fees were eliminated in the 2003-2004 biennium with the passage of Initiative 776 which repealed the \$15 local option vehicle license fee. The total estimated loss in the 2003-2008 Transportation CIP is \$2.4 million.

Investment interest and other revenue sources totaled \$2.5 million and were approximately \$100,000 below budget. This category includes interest earnings on CIP fund balances as well as other revenue such as contributions from the City of Bellevue for BROTS projects.

Expenditures: Expenditures in the City's capital investment program totaled approximately \$61.1 million or approximately 65% of budget excluding the ending fund balance. Expenditures in the Transportation, Parks and Fire functional areas accounted for the majority of the spending with each expending over 70% of their budgeted allocations. Following is a recap of expenses by functional area.

Expenditures in the **Council CIP Contingency** included a \$1.5 million transfer to the General Government CIP to support the City Hall project. This transfer was approved by Council during the 2003-2004 budget process.

Expenditures in the **Parks functional area** totaled \$13.6 million and included the development of Perrigo Park, renovation of Grasslawn Park Phase II and improvements to the Old Redmond School House (ORSCC) gym floor and parking lot. Other projects completed by the Parks Department in 2003-2004 include the Firefighter Plaza, Senior Center and Teen Center roof repairs, the Willows Creek Play Structure and Sunset Gardens at the Coast Guard housing site.

As mentioned above, **Transportation functional area** expenditures represent the majority of CIP activity, totaling \$41.7 million or 77% of budget. Significant projects included completion of West Lake Sammamish Parkway (51st Street to Marymoor), Redmond Way Access at Redmond Way and Bear Creek Crossing, 140th Avenue NE Sidewalk Improvements, Sammamish River Pedestrian Bridge, Safety Improvements at NE Street 40th and 148th Avenue NE, 166th Avenue NE Improvements and the 2004 Street Resurfacing program. In addition, work continued on the NE 116th Street Corridor, the Transportation Master Plan (TMP) and Union Hill Road Widening.

The **Fire functional area** spent approximately \$1.4 million or 70% of its budget. Expenditures included purchase of the new aerial ladder truck to be housed at Fire Station 11 and repair of the Fire Station #12 roof. The Fire Department continues to work on the upgrade of fire station security as well as repairs to Fire Station #16 and the maintenance facility.

Police functional area expenditures totaled approximately \$330,000 or 10% of budget. Major project work included continued progress on Homeland Security and police vehicle cameras. Although delayed in 2003-2004, the criminal justice integration program is back on track now that regional relationships necessary to the project have been solidified. In addition, in mid-2004, Council approved \$1.1 million to construct an evidence processing area on the north side of the Public Safety Building. Much of the work on this project as well as the associated expenditures will occur in 2005.

Expenditures in the **General Government functional area** totaled \$2.6 million and reflect affordable housing contributions toward rehabilitation of a 66-unit apartment complex in Kirkland and an 18 unit apartment demonstration project in Eastgate, both of which were in conjunction with A Regional Coalition for Housing (ARCH). In addition, funding was also allocated to Habitat for Humanity and Summerwood Apartments. Other expenditures in the General Government functional area included construction of covered storage for equipment at the Maintenance and Operations Center (MOC), architecture and engineering costs to launch the new City Hall project, repayment of the Parks, Transportation and Water/Wastewater impact fees that were waived for the Transit Oriented Design development as well as a one-time transfer of funds into the Parks CIP for future land acquisition.

INVESTMENTS

The City's investment portfolio continued to meet the primary objectives of the investment policy: safety of principal, liquidity of funds, and attaining a market rate of return given risk constraints and diversification guidelines. The investment portfolio decreased slightly from \$105.9 million at the start of the year to \$102.6 million at year-end 2004, a 3.2% decrease. The portfolio's decrease is primarily attributable to a higher level of spending related to CIP projects.

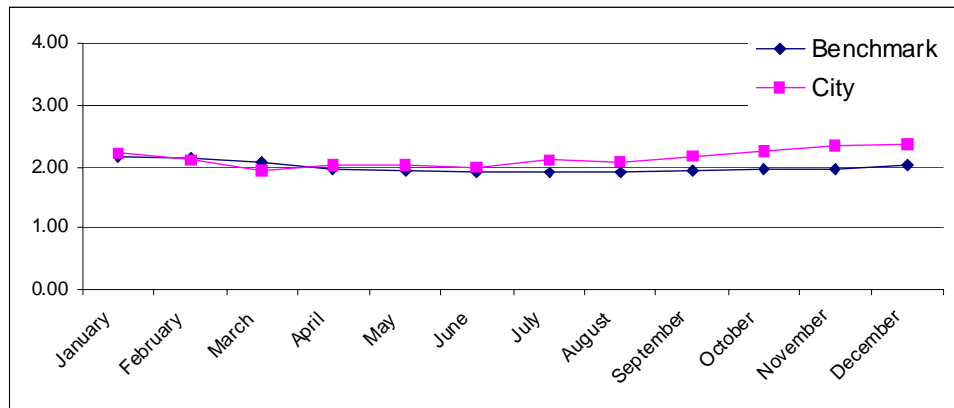
The table below provides a snapshot of the City's portfolio as of December 31, 2004. The yield to maturity at year-end was 2.3%.

Investment Type	Book Value	Percentage of Portfolio	Days to Maturity	Yield To Maturity
State Investment Pool	\$6,327,392	6.17%	1	2.10%
Certificates of Deposit	\$34,047,521	33.19%	185	2.16%
Federal Agency Issues	\$55,589,252	54.19%	512	2.54%
Federal Agency Discount Issues	\$4,883,624	4.76%	354	2.36%
Money Market Fund	\$1,736,317	1.69%	1	N/A
	\$102,584,106	100.00%	362	2.37%

Source: City financial records

The City was able to outperform its benchmark as interest rates began to rise in 2004. During the year the City earned an average of 2.12% versus the benchmark average of 1.98%. The City currently benchmarks its portfolio to the 2-year average of the 2-year Treasury Note. The following chart compares the City's rate of return to the benchmark on a monthly basis for 2004.

**Portfolio Benchmark Comparison
January 2004 – December 2004**



APPENDICES

General Fund Revenues and Expenditures
January 1, 2003 - December 31, 2004

REVENUE COLLECTIONS	2003-04 Budget	2003-04 Actual	% Received
Beginning Fund Balance	\$ 1,662,829	\$ 1,737,773	104.5%
Sales and Use Taxes	34,950,000	34,444,112	98.6%
Sales Tax on Construction	(2,200,000)	(2,200,008)	100.0%
Sales Tax - Criminal Justice	1,940,000	1,789,343	92.2%
Property Taxes	20,076,000	19,908,345	99.2%
Utility Taxes			
Electricity	7,394,000	6,955,269	94.1%
Telephone	7,447,000	6,495,816	87.2%
Natural Gas	1,998,000	1,416,298	70.9%
Garbage Collection	921,000	1,015,937	110.3%
Cable Television	904,000	1,148,058	127.0%
Subtotal: Utility Taxes	18,664,000	17,031,378	91.3%
Development Fees	7,924,000	6,730,312	84.9%
Intergovernmental			
Fire & Emergency Services	9,636,820	9,461,951	98.2%
Overhead Fees	4,820,983	4,753,086	98.6%
Motor Vehicle Fuel Taxes	1,366,000	1,307,550	95.7%
Motor Vehicle Excise Taxes	0	0	
Liquor Profits & Taxes	812,000	971,418	119.6%
Federal/State/Local Grants & Paymnts	444,334	597,226	134.4%
Subtotal: Intergovernmental Revs	17,080,137	17,091,231	100.1%
Other			
Transfer from Reserves	537,069	1,037,069	193.1%
Investment Interest	2,450,000	672,226	27.4%
Business Licenses	1,567,000	1,736,186	110.8%
Business License Penalties	60,000	489,123	815.2%
Admissions Tax	903,000	957,230	106.0%
Fines and Forfeitures	297,000	399,207	134.4%
Licenses and Permits	132,700	184,630	139.1%
Other	627,841	1,037,180	165.2%
Subtotal: Other	6,574,610	6,512,851	99.1%
Subtotal Revenues (excluding economic contingency)	106,671,576	103,045,337	96.6%
Add: Economic Contingency		3,300,000	
TOTAL REVENUES	\$ 106,671,576	\$ 106,345,337	99.7%

DEPARTMENTAL EXPENDITURES	2003-04 Budget	2003-04 Actual	% Spent
Fire	\$ 23,705,055	\$ 23,865,193	100.7%
Police	20,595,988	20,193,067	98.0%
Non-Departmental	11,641,243	10,783,467	92.6%
Public Works	16,141,531	15,015,867	93.0%
Finance and IS	10,163,274	9,475,833	93.2%
Planning	10,905,727	9,527,774	87.4%
Parks and Recreation	9,092,185	8,197,849	90.2%
Human Resources	1,740,336	1,525,305	87.6%
Legal	1,365,084	1,395,973	102.3%
Executive	1,006,297	1,006,297	100.0%
Legislative	314,856	261,574	83.1%
TOTAL EXPENDITURES	\$ 106,671,576	\$ 101,248,199	94.9%

City Utility Operating Budget Summary
January 1, 2003 - December 31, 2004

Water / Wastewater Utility	2003-04 Budget	Jan 2003 - Dec 2004	% of Budget
Beginning Fund Balance	1,941,216	1,689,630	87.0%
Engineering Fees	556,000	444,351	79.9%
Water & Sewer Rate Revenues	21,884,483	22,888,673	104.6%
Regional Capital Facility Charge Revenue	551,250	543,035	98.5%
Metro Sales	13,726,710	14,243,910	103.8%
Other Revenues	278,500	615,769	221.1%
Transfer From CIP (Debt Retirement)	2,283,000	2,283,000	100.0%
Total Revenue	39,279,943	41,018,738	104.4%
Total Resources Including Beginning Fund Balance	41,221,159	42,708,368	103.6%
Operating Expenditures	10,134,030	9,492,147	93.7%
Metro Wastewater Treatment	13,726,710	14,051,356	102.4%
Water Purchases	6,364,274	5,896,133	92.6%
Regional Capital Facility Charge pass-thru to CWA	551,250	548,100	99.4%
WWW Revenue Bonds Debt Service	2,855,000	2,820,000	98.8%
Transfer to General Fund	2,555,213	2,457,518	96.2%
Transfers to CIP	3,787,639	4,105,575	108.4%
Total Expenditures before Ending Fund Balance	39,974,116	39,370,829	98.5%
Ending Fund Balance	1,247,043	3,337,539	
Total Expenditures including Ending Fund Balance	41,221,159		
Water/Wastewater CIP	22,418,141	10,869,333	48.5%
Operating Income (Loss): Jan-Dec 2004		1,545,940	
Operating Income (Loss): Jan-Dec 2002		163,595	

Stormwater Mgmt Utility	2003-04 Budget	Jan 2003 - Dec 2004	% of Budget
Beginning Fund Balance	1,925,644	1,925,644	100.0%
Engineering Fees	200,000	182,649	91.3%
SWM Rate Revenue	10,527,000	10,330,353	98.1%
CIP Surcharge	3,715,000	3,642,644	98.1%
Other Revenue	40,200	84,062	209.1%
Total Revenue	14,482,200	14,239,708	98.3%
Total Resources Including Beginning Fund Balance	16,407,844	16,165,352	98.5%
Operating Expenditures	6,914,190	7,313,747	105.8%
Transfers to GF	1,729,447	1,729,447	100.0%
Transfers to CIP	5,845,890	6,044,231	103.4%
Total Expenditures before Ending Fund Balance	14,489,527	15,087,425	104.1%
Ending Fund Balance	1,918,317	1,077,927	
Total Expenditures including Ending Fund Balance	16,407,844		
Stormwater Mgmt CIP	12,524,823	5,928,094	47.3%
Operating Income (Loss): Jan-Dec 2004		1,923,178	
Operating Income (Loss): Jan-Dec 2002		2,926,452	

UPD Utility Operating Budget Summary
January 1, 2003 - December 31, 2004

UPD Utility	2003-04 Budget	Jan 2003 - Dec 2004	% of Budget
Beginning Fund Balance	1,294,416	1,294,416	100.0%
Engineering Fees	802,000	517,054	64.5%
Water & Sewer Rate Revenue	2,537,682	2,443,841	96.3%
Regional Capital Facility Charge Revenue	1,204,400	998,064	82.9%
Metro Sales	642,083	811,291	126.4%
Other Revenue	535,750	554,919	103.6%
UPD Depr Rate Surcharge	749,947	780,980	104.1%
Total Revenue	6,471,862	6,106,149	94.3%
Total Resources Including Beginning Fund Balance	7,766,278	7,400,565	95.3%
Operating Expenditures	2,151,692	1,624,339	75.5%
Metro Wastewater Treatment	529,387	636,532	120.2%
Water Purchases	934,500	974,093	104.2%
Regional Capital Facility Charge pass-thru to CWA	1,204,400	991,800	82.3%
Transfer to CIP	2,599,136	2,046,096	78.7%
Total Expenditures before Ending Fund Balance	7,419,115	6,272,860	84.5%
Ending Fund Balance	347,163	1,127,705	
Total Expenditures including Ending Fund Balance	7,766,278		
UPD CIP	3,219,701	918,891	28.5%
Operating Income (Loss): Jan-Dec 2004		67,304	
Operating Income (Loss): Jan-Dec 2002		(21,722)	

Capital Improvement Program Revenues and Expenditures
January 1, 2003 - December 31, 2004

REVENUE CATEGORIES	2003-04 Budget	2003-04 Actual	% Received
General Fund	\$ 5,384,089	\$ 5,165,183	95.9%
Real Estate Excise Tax (REET)	4,260,000	6,777,794	159.1%
Sales Tax on Construction	2,200,000	2,200,008	100.0%
Business License Surcharge [1]	5,244,116	6,634,599	126.5%
Impact Fees	5,191,000	3,295,219	63.5%
Private Contributions	422,780	4,520,041	1069.1%
Federal/State Grants	6,030,126	3,776,722	62.6%
Investment Interest	2,198,003	1,685,535	76.7%
City Campus Project Revenue [2]	3,494,659	3,171,028	90.7%
Vehicle registration fees - local Option	800,000	9,992	1.2%
Half-cent motor vehicle fuel tax	624,000	611,367	98.0%
Loan Proceeds	3,550,000	3,698,472	104.2%
Operating Transfers	18,108,953	20,984,814	115.9%
Other Revenue [3]	189,749	823,027	433.7%
Major Revenue Source Subtotal	57,697,475	63,353,801	109.8%
Beginning Fund Balance	48,012,573	46,994,184	97.9%
TOTAL CIP REVENUES	\$ 105,710,048	\$ 110,347,985	104.4%

[1] Numbers exclude Business Tax dedicated to Transportation Demand Management projects which are accounted for outside of the CIP.

[2] Reflects anticipated collections and transfers from the Utilities and Solid Waste/Recycling for the City Hall project.

[3] Other revenue includes intergovernmental, rental and BROTS revenue.

CIP FUNCTIONAL AREA EXPENDITURES	2003-04 Budget	2003-04 Actual	% Spent
Council CIP	\$ 4,039,243	\$ 1,500,000	37.1%
Parks CIP	18,377,060	13,597,243	74.0%
Transportation CIP	54,068,643	41,677,932	77.1%
Fire CIP	1,963,541	1,372,724	69.9%
Police CIP	3,173,690	329,792	10.4%
General Government CIP	12,321,194	2,625,090	21.3%
Total CIP Expenditures Subtotal	93,943,371	61,102,781	65.0%
Real Estate Excise Tax Transfers	4,229,055	4,229,055	
Ending Fund Balance	7,537,622	0	
TOTAL CIP EXPENDITURES	\$ 105,710,048	\$ 65,331,836	